

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

BAC3664 – ACCOUNTING THEORY
(All sections / Groups)

02 MARCH 2019

2.30 p.m – 5.30 p.m

(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 2 pages with 4 Questions only.
2. Attempt ALL questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

- a. Inductive accounting theories is a development of ideas or theories through observation. What are THREE (3) general conditions that would be ideally exist before theory could be developed through observations? (5 marks)
- b. "Accounting principle XYZ explained the association between cost and revenue. The association is best accomplished when it reflects cause and effect between cost and revenue. The association between expenses and revenue also depends on four criteria"

What accounting principle is describing by the statement and explain all four criteria implied by the principle. (20 marks)

(Total: 25 marks)

QUESTION 2

- a. In the USA, monopoly power enjoyed by railroad companies gave rise to discriminatory freight charges--to the detriment of farmers and industries located in remote areas. Interstate Commerce Commission (ICC) was created to correct for this market failure. The above statement is related to public interest theory. Discuss the theory. Relate your discussion with market failure and role of regulator as discussed by the theory. (20 marks)
- b. In April 2018, the MASB issued a revised Conceptual Framework (CF) for Financial Reporting. Refer to revised CF, current value measurement bases include fair value, current value, value in use and fulfilment value. Briefly explain measurement bases of fair value and current value. (5 marks)

(TOTAL: 25 marks)

QUESTION 3

- a. Offering managers incentives that are tied to accounting profits might have the adverse effects of including them to undertake actions that are not in the interest of the shareholders. Discuss this statement from the perspective of Positive Accounting Theory and Earnings Management. (9 Marks)

Continued...

- b. Conservative accounting policies are those methods that tend to delay the recognition of revenue, accelerate the recognition of expenses, and lead to lower asset and higher liability recognition. It is generally argued in the literature that potential conflicts of interest between principal and agent are better managed due to restriction in accounting choices, thus limits the opportunistic earnings management practises. Define AND discuss how income would be reported if earnings management is exercised consistent with the following hypotheses:

- i. Debt Covenant Hypothesis (8 Marks)
- ii. Political Cost Hypothesis (8 Marks)

(TOTAL: 25 marks)

QUESTION 4

- a. The assumption of market efficiency is central to capital market research. To what extent do securities markets quickly and fully reflect different available information depends on the three levels of Market Efficiency.
- i. Discuss all THREE (3) Market Efficiency forms. (6 Marks)
 - ii. Which out of these three types market efficiency is the most relevant for capital market research in accounting. Why? (4 Marks)
 - iii. Would you expect that there are benefits associated with voluntary disclosure of information? Why or why not? (5 Marks)
- b. Current cost accounting (CCA) is introduced with an attempt to provide more realistic book values by valuing assets at current market buying prices. It takes into account time-value of money and inflation. CCA is formulated to differentiate between profits from trading and those gains that results from holding an asset. According to CCA, explain the following:
- i. What is holding gains? (2 Marks)
 - ii. Financial Capital maintenance (2 Marks)
 - iii. Physical Capital maintenance (2 Marks)
 - iv. What are the critics of CCA? (4 Marks)

(TOTAL: 25 marks)

End of paper